Alberta Energy and Utilities Board
640-5th Avenue SW
Calgary, Alberta
T2P 3G4

Canadian Association of Petroleum Producers
2100, 350-7th Avenue SW
Calgary, Alberta
T2P 3N9

Small Explorers and Producers Association of Canada
1060, 717-7th Ave SW
Calgary, Alberta
T2P 0Z3

TO: All Oil, Gas and Oils Sands Operators

April 1999

1997/98 ORPHAN WELL FUND ANNUAL REPORT

Enclosed is a copy of the 1997/98 annual report for the Orphan Well Fund as approved by the Fund Advisory Committee (FAC) which is composed of industry and government regulatory representatives. The Orphan Well Fund, previously referred to as the Abandonment Fund is funded by the oil and gas industry and administered by the EUB. It's purpose is to identify and handle the liability associated with existing orphan wells and to prevent future orphan wells through the enforcement and improvements of existing provincial regulations.

1997/98 year marks the beginning of the expansion of activities beyond well abandonments to include pipeline abandonments, facility decommissioning, and well site reclamation. This annual report is broken into two sections. The first part is the Annual Report of the Orphan Well Fund and the second part is the report on EUB's Liability Management activities which are an integral part of enforcing and improving provincial regulations in the prevention of orphan wells.

Questions or comments regarding the report may be directed to either Patricia Foo, Program Manager of the Alberta Orphan Well Program at (403) 297-8555 or to Bob Willard, Corporate Compliance Group Leader of the EUB Facilities Division at (403) 297-8572.

Regards,

signed by

N. McCrank, Q.C.
Chairman, EUB

C. Fischer
Chairman, CAPP

G. Fink
Chairman, SEPAC

Alberta Orphan Well Program

A JOINT PROGRAM SPONSORED BY INDUSTRY AND GOVERNMENT

1997/98 Orphan Well Fund
Annual Report

and

EUB Liability Management
Key 1997/98 Activities

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CHAIRMAN'S MESSAGE

Fiscal 1997/98 marked a year of change for the Orphan Well Fund which is now in its sixth year of operation. With the scope of work activities expanding from well abandonments to include pipeline abandonment, facility decommissioning, and well site reclamation, the Fund is now prepared to start cleaning up the liabilities of orphaned oil and gas wells and facilities on a much broader operational scale. With this increase in scope, the Orphan Well Fund's operational role is now referred to as the Alberta Orphan Well Program.

John Nichol, P.Eng.
Chairman of Fund Advisory Committee

BACKGROUND

The Alberta Orphan Well Program is a joint industry-government initiative that is funded by the oil & gas industry with provincial government support and approval, unique to Alberta. The Orphan Well Fund was created to pay for the clean up of the liability associated with orphan wells and sites left behind by defunct oil and gas operators. The Fund originated from the EUB's Reserve Fund and is referred to as the Well Abandonment Fund in previous annual reports by the EUB.

This initiative operates under the stewardship of the Fund Advisory Committee (FAC) which is composed of representatives from the Alberta Energy and Utilities Board (EUB), Canadian Association of Petroleum Producers (CAPP), Small Explorers and Producers Association of Canada (SEPAC), Alberta Environmental Protection (AEP), Alberta Department of Agriculture, Food and Rural Development (AFRD) and Alberta Department of Energy (DOE).

Funding for the Alberta Orphan Program comes from four main revenue sources:

- First, the main source, is the annual "abandonment levy" paid by industry based on the number of inactive wells each operator has on December 31st of each calendar year.
- Second source is the first time licensee fee which is a one time startup fee of $10,000 charged to all new licensees.
- Third source are any funds recovered in legal action by the EUB taken against companies and their individual directors who are licensees and working interest participants of wells.
- Fourth source is the interest on the money held in the Orphan Well Fund.

KEY EVENTS

April 1997, the start of the 1997/98 fiscal year marked the sixth year of continued orphan well abandonment work conducted by EUB Operations Group. In anticipation of the expanded scope of expenditures, the EUB started decommissioning facilities and abandoning pipelines associated with previously abandoned orphan wells for the first year.

September 1997, an Order in Council was recommended by Dr. Stephen West, Minister of Energy and signed by the Lieutenant Governor as part of the approval process. The Order in Council authorized expenditures from the Abandonment Fund for the expanded activities of pipeline

abandonments, facility decommissioning and decontamination and reclamation of well sites.

October 1997, the Program Manager was hired to manage the expanded operational activities of the Abandonment Fund, now known as the Alberta Orphan Well Program. Reclamation work in the form of initial site assessments for priority sites were done for the first time on orphan well sites. A complete review of scope for abandonment and reclamation was undertaken as preparation for work in the new season.

CURRENT YEAR HIGHLIGHTS

In 1997/98, downhole and surface abandonment operations were successfully completed on eleven wells. Seven of the completed wells were done as continuation of operations initiated in the 1996/97 fiscal year while an additional four wells were abandoned completely this year. Well abandonment work was initiated on an additional four wells which will be completed during the 98/99 budget year.

Expanded activities included the abandonment of eleven pipelines and facilities decommissioning work at five locations. Under the Alberta Orphan Well Program, pre-reclamation site assessments were conducted on 49 sites before the winter season. Over the winter, activities were focused on working with the EUB and AEP to develop the scope and the plan for abandonment and reclamation work for the upcoming year.

FUTURE GOALS, Program Manager

Well Abandonments Continuing program of well abandonments of orphan wells and associated facility decommissioning and flowline abandonments.

Reclamation Activities Commencing first full season of reclamation activities of orphan well sites. Work to include conducting site assessments of well sites on current list and reclamation work on sites. Selected reclamation priority sites are those belonging to the defunct operators, Bridges Energy Inc. and Senora Energy Corporation as per AEP recommendation. Plan is to submit applications for reclamation certificates on any sites which are found ready for certification.

Open Communication with EUB and AEP Developing clear communication with EUB and AEP government agencies conducting Prevention and Enforcement activities. Results of the communication would be the development of a clearly defined work scope and priorities for AOWP based on EUB and AEP input.

Continued Improvement in Financial Administration of Fund Continuing to work with the EUB to improve the financial administration of the Fund by adaptation of the existing financial system to the AOWP's activities. Part of this continuous improvement will be to define internal accountability for the accounting of revenues and expenditures out of the Fund. Additional improvements will be sought in terms of clarity in

budgeting and reporting of revenues and expenditures.

FINANCIAL REVIEW

Revenues exceeded forecasted revenues by $131,320 due to revenues collected above forecast in first time licensee fees and equipment salvage. This additional revenue was offset from revenues collected slightly below the forecasted revenues from the inactive well levy. Inactive well levy was based on $70 per well for every inactive well held by an operator on December 31, 1996.

Expenditures of $815,268 were substantially lower than the original budgeted expenditures of $3,799,000. This can primarily be attributed to first, the delay in the initiation of reclamation work pending the hiring of the Program Manager and second, the deferral of the transfer of funds for reimbursement of EUB Enforcement operation expenses to the 98/99 fiscal year.

See Note 2 to Financial Schedules for details.

SCHEDULE 1

ORPHAN WELL FUND
SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCE
AS OF 31 MARCH 1998

	UNAUDITED	
	1997/98	1996/97
ASSETS		
Cash and Short-Term Investments	$ 8,027,665	$ 5,319,149
Interest Receivable	85,402	49,284
Trade Receivable	-	84,165
	$ 8,113,067	**$ 5,452,598**

LIABILITIES AND FUND BALANCE		
Trade Payable	$ 138,883	$ 5
Accrued Liabilities	132,600	-
Holdback Payable	2,085	2,085
	273,568	
		2,090
Fund Balance	7,839,499	5,450,508
	$ 8,113,067	**$ 5,452,598**

SCHEDULE 2

ORPHAN WELL FUND
SCHEDULE OF REVENUES AND EXPENDITURE
FOR THE YEAR ENDED 31 MARCH 1998

UNAUDITED

	1997/98		1996/97
	Actual	Budget	Actual
Revenues:			
Inactive Well Levy	$ 2,044,394	$ 2,200,000	$ 2,591,497
First Time Licensee Fee	960,000	700,000	1,010,000
Interest Revenue	257,565	200,000	226,113
	3,261,959	3,100,000	3,827,610

Expenditures:			
Abandonment Operations (Schedule 3)			
Well Abandonment	514,248	1,088,000	1,986,131
Blowout Insurance	10,714	20,000	3,655
Pipeline Abandonment	26,874	200,000	-
Facility Decommissioning	101,312	70,000	-
Well Site Reclamation	55,107	1,800,000	1,350
Working Interest Claims	7,017	400,000	130,612
	715,272	3,578,000	2,121,748
Less:			
Salvage Sales	(26,926)	-	(213,389)
Net Operations Expenditures	688,346	3,578,000	1,908,359
Other Expenditures			
Fund Administration	101,034	222,000	31,590
Miscellaneous	83,588	-	(54,962)
	184,622	222,000	(23,372)
Net Operating Surplus (Deficit)	2,388,991	(700,000)	1,942,623
Fund Balance at Beginning of Year	5,450,508	5,450,508	3,507,885

Fund Balance at End of Year	**$ 7,839,499**	**$ 4,750,508**	**$ 5,450,508**

SCHEDULE 3-1

ORPHAN WELL FUND
SCHEDULE OF ABANDONMENT OPERATIONS BY PROPERTY
FOR THE YEAR ENDED 31 MARCH 1998

This schedule is a summary by property of the activities conducted during this fiscal year and the total activities to date.
Note that the Cumulative Total to date is from April 1, 1993 to March 31, 1998. See Note 2 for details.

	1997/98		Cumulative Total	
	Expense	**Revenue**	**Expense**	**Revenue**
WELL ABANDONMENT - CARE AND CUSTODY WELLS				
HOMESTEAD NO. 1 (5-16-19-2W5)	$ 300	-	$ 1,181	-
PEACE RIVER (RELIEF WELL) NO.1	3,740	-	15,545	-
ALBERTA CLAY MEDHAT (15-29-12-5)	5,614	-	30,781	-
TOTAL CARE AND CUSTODY WELLS	9,654	-	47,507	-
WELL ABANDONMENT - COMPLETED IN 1997/98				
BEAVER OILS NO. 1 (8-24-2-11W4)	36,267	2,04	667,64	2,04
MIRACLE # 3 (11-4-19-2-W4)	9,735	16,525	275,838	19,685
OKALTA NO. 22 (8-1-20-3-W5)	1,550	-	194,031	2,16
ARMSTRONG ET AL SUNSET (4-24-69-19)	3,348	-	88,545	500
STERLING PACIFIC # 1 (15-33-18-2-W5)	112,540	-	124,744	-
BRITISH DOMINION # 3 (6-12-20-3-W5)	2,170	-	381,154	19,402
DEXX ENERGY MANTICORE WILLGR (8-36-40-6)	620	-	65,162	13,433

KATANA RESOURCES MIRACLE # 1 (11-4-19-2-W5)	83,357	5,460	137,682	5,460
ZEUS OILS (6-4-44-6W4)	16,850	-	16,850	-
201875 ET AL LARNE (102/8-6-116-3)	130,350	-	130,350	-
EAGLE OILFIELD (10-12-49-26W4)	82,628	-	82,62	-
RUNRES RED EARTH (7-13-88-9W5)	1,220	-	1,220	-
FRONTIER PLAZA IMP YEKAU (16-16-52-26)	2,075	-	3,540	1,000
HUNTEX GAP WW (16-17-24-9)	(22,932)	-	-	-
TOTAL WELLS COMPLETED IN 97/98	459,778	24,026	2,169,385	63,687
WELL ABANDONMENT - IN PROGRESS				
RICHARD THOMAS (00/5-32-56-24W4)	10,742	-	10,742	-
RICHARD THOMAS (02/5-32-56-24W4)	6,423	-	6,423	-
DEXX ET AL AERIAL (4-9-29-18)	5,144	-	95,369	2,435
MIDFIELD VERMILION (16-14-50-6)	22,507	2,000	255,624	2,000
TOTAL ABANDONMENTS IN PROGRESS	44,816	2,000	368,158	4,435

	1997/98		**Cumulative Total**	
	Expense	**Revenue**	**Expense**	**Revenue**
TOTAL WELL ABANDONMENT	**$ 514,248**	**$ 26,026**	**$ 2,585,050**	**$ 68,122**

SCHEDULE 3-2

ORPHAN WELL FUND
SCHEDULE OF ABANDONMENT OPERATIONS BY PROPERTY
FOR THE YEAR ENDED 31 MARCH 1998

This schedule is a summary by property of the activities conducted during this fiscal year and the total activities to date.

Note that the Cumulative Total to date is from April 1, 1993 to March 31, 1998. See Note 2 for details.

	1997/98		Cumulative Total	
PIPELINE ABANDONMENTS	**Expense**	**Revenue**	**Expense**	**Revenue**
HAMCOR PROVOST PIPELINE (LICENCE #9190)	8,798	-	8,798	-
HAMCOR PROVOST PIPELINE (LICENCE #23471)	8,204	-	8,204	-
HAMCOR PROVOST PIPELINE (LICENCE #23472)	9,872	-	9,872	-
TOTAL FLOWLINE ABANDONMENTS	$ 26,874	-	$ 26,874	-

	1997/98		Cumulative Total	
FACILITY DECOMMISSIONING	**Expense**	**Revenue**	**Expense**	**Revenue**
BRIDGES EDSON BATTERY (12-8-53-16W5)	$ 28,262	-	$ 28,262	-
BRIDGES EDSON BATTERY (4-8-53-16W5)	3,114	-	3,114	-
BRIDGES EDSON BATTERY (7-19-53-16W5)	64,312	-	64,312	-
BRIDGES EDSON BATTERY (2-10-54-17W5)	3,360	-	3,360	-
BRIDGES EDSON BATTERY (10-3-54-17W5)	2,264	-	2,264	-
HAMCOR PROVOST BATTERY (10-7-35-10W4)	-	$ 900	900	-
TOTAL FACILITY DECOMMISSIONING	$ 101,312	$ 900	$ 102,212	-

	1997/98		Cumulative Total	
WELL SITE RECLAMATIONS	**Expense**	**Revenue**	**Expense**	**Revenue**
BRIDGES GENERAL RECLAMATION	8,121	-	8,121	-
SENORA GENERAL RECLAMATION	4,388	-	4,388	-

ICOR/DICORE GENERAL RECLAMATION	33,170	-	33,170	-
ZAMA CITY GENERAL RECLAMATION	2,196	-	2,196	-
ORPHAN WELL GENERAL RECLAMATION	7,232	-	7,232	-
TOTAL WELL SITE RECLAMATIONS	$ 55,107	-	$ 55,107	-

	1997/98		Cumulative Total	
WORKING INTEREST CLAIMS	**Expense**	**Revenue**	**Expense**	**Revenue**
BARDINE 100/09-36-050-13W4	4,293	-	4,293	-
BARDINE 100/16-33-054-16W4 & 100/10-29-054-16W4	2,724	-	2,724	-
TOTAL WORKING INTEREST CLAIMS	$ 7,017	-	$ 7,017	-

	1997/98		Cumulative Total	
BLOWOUT INSURANCE	**Expense**	**Revenue**	**Expense**	**Revenue**
ALL ABANDONMENT OPERATIONS	10,714.00	-	$ 48,586.00	-
TOTAL BLOWOUT INSURANCE	$ 10,714.00	-	$ 48,586.00	-

	1997/98		Cumulative Total	
	Expense	**Revenue**	**Expense**	**Revenue**
GRAND TOTAL ALL ABANDONMENT OPERATIONS	$ 715,272	$ 26,926	$ 2,824,846	$ 68,122

NOTES TO FINANCIAL SCHEDULE

Note 1 Prior Year Adjustment

Prior to 1997/98 the Fund had invoiced certain companies for some of the costs of abandonment. The amounts of the invoices were stated as Abandonment Recoveries revenues in that fiscal year. Since the invoices were known to be uncollectable at the time of invoicing, the revenue should not have been recognized. To correct the revenue overstatement from the prior years a miscellaneous expense of $78,000 was recorded for the current year.

Note 2 Schedule 3 Details

Well Abandonments Actual $514,248 Budget $1,088,000

LICENSEE Well name (Location)

Wells worked on in 1996/97, abandonment completed in 1997/98

- BEAVER OILS LTD. Beaver Oils No. 1 (8-24-2-11W4) $36,267
  Unlicensed deep water well located in river. Cemented to surface, confirmed no leaks, waited on weather, surface abandonment completed (spent $19,374.32 in 1996/97).
- KATANA RESOURCES LTD Miracle #3 (11-4-19-2W5) $9,735
  Completion of surface abandonment (spent $266,104 in 1996/97).
- KATANA RESOURCES LTD Okalta No. 22 (8-1-20-3W5) $1,550
  Finalized billing, abandoned in 1996/97 (spent $192,481 in 1996/97).
- ARMSTRONG, JACK Armstrong et al Sunset (4-24-69-19W5) $3,348
  Access road cleanup work after abandonment (spent $1,556 in 1996/97).
- KATANA RESOURCES LTD Katana Sterling Pacific #1 (15-33-18-2W5) $112,540
  Multiple casing strings pulled for groundwater protection (spent $12,2034 in 1996/97 for investigation).

- KATANA RESOURCES LTD Katana British Dominion #3 (6-12-20-3W5) $2,170
  Surface abandonment completed (spent $378,984 in 1996/97).

- DEXX ENERGY CORPORATION Dexx Energy Manticore Willgr (8-36-40-6) $620
  Finalized billing, abandoned previous year (spent $94,542 in 1996/97).

Wells worked on in 1997/98, abandonment completed in 1997/98

- KATANA RESOURCES LTD Katana Resources Miracle #1 (102/11-4-19-2W5) $83,357
  Old cable tool well which required ground water protection.

- ZEUS OILS & HOLDINGS LTD Zeus Oils (6-4-44-6W4) $16,850
  Surface casing vent flow repair and well abandonment completed.

- 201875 ALBERTA LTD. 201875 et al Larne (102/8-6-116-3W5) $130,350
  Northern winter access located by Zama City, surface casing vent flow repair done in January due to rig availability.

- EAGLE OILFIELD SALES & FABRICATING Eagle Oilfield (10-12-49-26W4) $82,628
  Sour gas well with dual zones to abandon and ground water protection.

Wells worked on in 1997/98, abandonment not completed in 1997/98

- THOMAS, RICHARD A. Richard Thomas (00/5-32-56-24W4) $10,742
  Standard abandonment. Note re-entry required for gas migration repair.

- THOMAS, RICHARD A. Richard Thomas (00/5-32-56-24W4) $6,423
  Standard abandonment. Note re-entry required for surface casing vent flow repair.

- DEXX ENERGY CORPORATION Dexx et al Aerial (4-9-29-18) $5,144
  Surface casing vent flow repair of lowest source done in previous year (spent $90,225 in 1996/97), monitored vent flow in 1997/98.

- MIDFIELD PETROLEUM DEV. CO. LTD Midfield Vermillion (16-14-50-6W4) $22,507
  Adjacent landowner's water well making fines and losing flow after previous year's work, well re-entered, drilled out and cemented at ground water depth in attempt to repair water well problem, waiting to confirm landowner water source before surface abandonment (spent $233,117 in 1996/97).

Care and Custody wells, maintenance costs

- MERCURY OILS LIMITED Homestead No. 1 (5-16-19-2W5) flare maintenance $300

- PEACE RIVER OIL COMPANY Peace River (Relief Well) No. 1 $3,740
  clean water outlet tray and EUB lease payments

- ALBERTA CLAY PRODUCTS Alberta Clay Medhat (15-29-12-5) $5,614
  greenhouse utility payments

Wells worked on in 1997/98, now transferred back to Enforcement

- RUNRES RESOURCES Runres Red Earth (7-13-88-9W5) $1,220
  Well investigation 1997/98, moved to Enforcement, charges to be reversed out

- HAMMER RESOURCES INC. Frontier Plaza Imp Yekau (16-16-52-26) $2,075
  Well investigation 1997/98, moved to Enforcement, charges to be reversed out

Successful Cost Recovery

- HUNTEX LIMITED Huntex Gap WW (16-17-24-9) ($22,932)
  Well abandoned in 1996/97 fiscal year, charges backed out in 1997/98.

Blowout Insurance Actual $10,714 Budget $20,000

Blowout Insurance line item showed in previous year has been rolled into well abandonment costs in order to standardize budget and annual report. The $10,714 expenditure is based on flat rate per meter of depth of all wells worked on in fiscal year.

Facility Decommissioning Actual $101,312 Budget $70,000

In 1997/98, the decommissioning of facilities was completed at 5 locations belonging to Bridges Energy company by the EUB (see schedule for locations) initially worked on in 1996. Equipment was salvaged at the water injection facility at 10-7-35-10W4 belonging to Hamcor Resources Ltd.

Flowline Abandonments Actual $26,875 Budget $200,000

Eleven flowlines were abandoned associated with 3 pipeline licences at the Hamcor Resources water injection facility at 10-7-35-10W4. Note larger than normal excavation was needed because the water lines were located more than 2m below ground level.

Well Site Reclamations Actual $55,107 Budget $1,800,000

No well site reclamation work was done by the EUB in fiscal 1997/98 year as this was beyond the scope of allowed expenditures. Under the Alberta Orphan Well Program, site investigation and well file research was initiated in October 1997 and 49 sites were inspected before winter started.

Working Interest Claims Actual $7,017 Budget $400,000

2 separate claims were made in 1997/98 for expenditures at 3 well locations by Signalta Resources Limited claiming against the defunct operator Bardine Oils Limited. (100/09-36-050-13W4/00, 100/16-33-054-16W4/00 and 100/10-29-054-16W4/00)

Liability Management - Key 1997/98 Activities

The EUB, as part of its regulatory mandate and as a result of specific functions undertaken in association with the Orphan Well Fund, proactively contributes to overall liability management, including orphan prevention and orphan fund protection. The following summarizes some key 1997/98 activities.

EUB ENFORCEMENT ACTIVITY & OPERATIONS

The EUB's Corporate Compliance Group is the lead group for audit and enforcement. The Operations Group of the EUB undertakes abandonment and care and custody of wells in non-compliance, where a licensee is unable or unwilling to comply.

High Level Enforcement Actions

The EUB's Enforcement Section, operating with legislated authority, undertakes a number of enforcement actions relating to the abandonment of wells. In fiscal 1997/98, the EUB Enforcement Section issued 39 Abandonment Orders, ordering the abandonment of 66 wells, two pipelines and two facilities, for reasons such as:

- Company no longer conducting business in Alberta (defunct company)
- Loss of the right to produce
- Inactive well audits
- Technical reasons
- Receiverships/insolvencies, and
- Expired mineral rights.

Abandonment Orders are issued as a high level enforcement action against operators that are unwilling or unable to comply with regulatory requirements. Abandonment Orders resulted in the following:

- Abandonment of wells, pipelines or facilities by licensees, working interst owners or others
- Reacquisition of mineral rights
- Transfer of the well to a responsible operator

- Submission of abandonment deposits
- Wells being deemed orphans for abandonment by the Orphan Well Fund
- Wells, pipelines or facilities being abandoned by EUB with subsequent debt recovery enforcement.

Closure Orders, Working Files

In 1997/98, the EUB issued 54 Closure Orders for non-compliance issues resulting in the closure of 278 wells, four pipelines and one facility.

The following illustrates the "Working File" progress of the Enforcement Section since 1994 on a calendar year basis:

Calendar Year	**1994**	**1995**	**1996**	**1997**	**1998***
Outstanding Enforcement Files	6	20	61	75	64
Files Completed	1	13	47	73	9
Files to Fund for Abandonment	5	7	14	2	2
Debt Recovery	0	$6,642	0	0	0
Savings to Fund	**$70,653**	**$33,805**	**$129,000**	**$786,900**	**$236,000**

* 1998 figures are for the first quarter

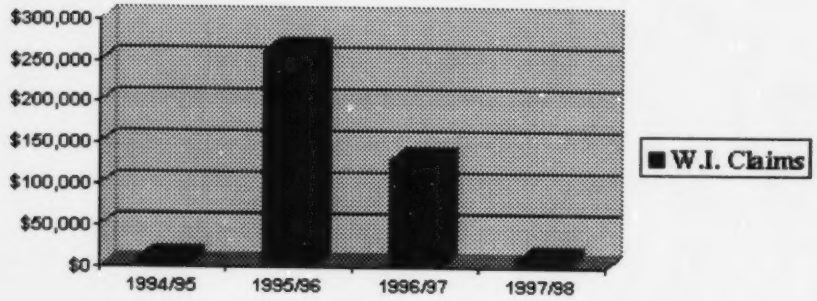
EUB Enforcement Operations

Direct EUB enforcement action during the 1997/98 fiscal year resulted in the enforced abandonment of 95 wells and associated facilities (6 batteries, 9 pipelines) at an expense of $1.4 million. Expenditures will be recovered through EUB debt enforcement action or reimbursement by the Fund.

Cash Reimbursement Application

Where a responsible working interest participant undertakes abandonment work on behalf of a defunct working interest participant application may be made for recovery of costs incurred based on the working interest share. (Referred to in Annual Report as Working Interest Claims). Three reimbursement applications were approved (see chart below) for well abandonment costs for defunct working interest participants totalling $7,017.03.

Applicant	Location	Cost Reimbursed	Defunct W.I.P.
Signalta Resources Limited	100/09-36-050-13W4/00	$4 293.08	Bardine Oils Limited
Signalta Resources Limited	100/16-33-054-16W4/00 and 100/10-29-054-16W4/00	$2 723.95	Bardine Oils Limited



Note that Abandonment Cost Orders/W.I. Claims have decreased significantly since 1995/96.

EUB Enforcement Budget

		1997/98 Actual	*1998/99 Forecast
EUB ENFORCEMENT EXPENDITURES			
Information Gathering			
	Title searches		1,000
	Document Mailing		3,000
	Private Investigator		24,000
	Contract Land Services		5,000
	Subtotal	10,782	33,000
Reluctant Licensee Operations			

	Care and Custody		105,000
	Remedial Action		10,000
	Subtotal	1,120	115,000
Debt Enforcement			
	Civil Enforcement		39,000
	Contract Law Services	91,000	50,000
	Judgement Orders		1,000
	Contingency for new files		21,000
	Subtotal	91,000	111,000
Total EUB Enforcement Expenditures		**102,902**	**259,000**
WELL ABANDONMENT EXPENDITURES			
Enforced Abandonment of Facilities			
	Well Abandonment	1,243,638	541,000
	Pipeline Abandonment	125,389	0
	Facility Abandonment	38,823	0
	Assess and secure- Big Valley		200,000
	Contingency		0
Total EUB Well Abandonment Expenditures		1,407,850	741,000
Total EUB Expenditures		**1,510,752**	**1,000,000**

* The EUB has identified 50 wells licensed to 20 companies that will require direct EUB intervention to ensure compliance, or as a precursor to orphan designation.

EUB ABANDONMENT PROGRAM (ENFORCEMENT) 1997-98

BOARD DIRECTED ABANDONMENTS DURING THE 1997-98 FISCAL YEAR		EUB ABANDONMENT OPERATIONS CONDUCTED AND EXPENDITURES INCURRED DURING THE 1997-98 FISCAL YEAR							
Licensee	**Field**	**No. of Downhole Abandonments Completed**	**No. of Surface Abandonments Completed**	**Expenditures Wells**	**No. of Batteries Abandoned**	**Expenditures Batteries**	**No. of Pipelines Abandoned**	**Expenditures Pipelines**	**Expenditures Total**
South Alberta Energy	Medicine Hat	78	40	892,356.67	2	38,3822.88	9	125,389.10	1,056,568.65
Cletom Energy Ltd.	Compeer	2	2	41,052.52	1	†	0	-	41,052.52
Prior Resources Ltd.	Lloydminster	13	13	191,415.70	2	†	-	-	191,415.70
Recoil Waste & Central Treating Ltd.	Horsefly	-	-	1,703.90*	-	-	-	-	1,703.90
Runres Resources Ltd.	Red Earth	1	1	30,973.50*	1	†	-	-	30,973.50
Huntex Ltd.	Undefined (24-9-W5)	1	1	86,136.21	-	-	-	-	86,136.21
Work Completed in 1997-98	.	95	57	.	6		9	.	.
Work Carried Forward into 1998-99	.	11	49	.	0		1	.	.
Total Expenditures	.	.	.	**1,243,638.50**	.	**38,822.88**	.	**125,389.10**	**1,407,850.48**

* NOTE: these facilities were not identified or named on the abandonment orders but costs were incurred

† = Included in Well Costs

Peer Review Group Liaison

The Peer Review Group (PRG) is a standing committee formed under the auspices of the Fund Advisory Committee (FAC). The PRG addresses ongoing process administration, and operational and enforcement matters related to the Orphan Well Fund. It has representation from CAPP, SEPAC, AEP and the EUB. The PRG meets as required to review and make recommendations on problem company files that have the potential to impact the Orphan Well Fund.

The primary areas of responsibility are:

- Review and approve the abandonment and reclamation costs submitted to the Abandonment Fund for orphan wells, pipelines, facilities and reclamation.
- Review, as necessary, working interest claims to the Orphan Well Fund.
- Consult with and provide advice to EUB and AEP enforcement staff respecting problem companies.
- Consult with and provide advice to the FAC respecting any matter impacting the Orphan Well Fund.

EUB ORPHAN PREVENTION ACTIVITY

Well Transfers

Approximately 2,008 well license transfer applications were processed, resulting in the transfer of 14,888 well licenses and 8,321 well name changes. This is an increase over the past two years (see table below) that reflects continued high industry activity in mergers and acquisitions. Approximately 649 pipeline transfer applications were processed, resulting in the transfer of 3,284 licenses. The continued application of the FAC-endorsed well license transfer screening criteria and other corporate compliance requirements resulted in high usage of the well abandonment deposit system. Deposits held to guarantee future work totaled $2,154,056. Over half of the deposits in the system, an amount of $1,127,516.50. were collected through well license transfer screening

	1995/96	1996/97	**1997/98**
Well License Transfers	6,442	10,986	14,888
Well Name Changes	3,971	7,560	8,321

Well Screening Ratio (WSR)

The well screening ratio program is designed to identify high-risk situations using FAC-approved criteria. The EUB audits a company's balance of active wells to inactive/suspended wells, requiring corrective action if the ratio is less than 0.5. Companies with a ratio of less than 0.5 that cannot be quickly corrected are required to submit a well abandonment deposit.

Action resulting from the 97/98 audits included:

- Submission of abandonment deposits of $801,890 for 87 wells within 14 companies;
- Transfer of 100 wells;
- Confirmed abandonment of 16 wells;
- Production resumed at 18 wells;
- Identification of 51 wells by the WSR audit which are subject to a corrective plan.
- Forwarding 10 companies representing 15 wells to the EUB Enforcement Section for further action.

Long Term Inactive Well Program

The Long Term Inactive Well Program, based on FAC recommendations, was initiated in November 1997. The purpose of the program is to substantially reduce the population of long term inactive wells, and minimize the financial risk to the Abandonment Fund.

The key element of the program is a prescribed schedule that requires each licensee to address a specified percentage of its identified inventory of long term inactive wells. At the conclusion of the program (31 December 2002), licensees must have dealt with all of their long term inactive wells by one or more of the following means:

- Place wells into continuous operational service,
- Abandon the wells, or
- Submit abandonment deposits.

The EUB established the number of long term inactive wells licensed to each company as of 1 September 1997. The base well count is to be used to establish the maximum number of long term inactive wells that a licensee may carry over into the remaining years of the program.

The EUB will monitor industry's progress in meeting the annual inactive well reduction requirements through the use of compliance audits. Companies found to be in non-compliance will face a series of escalating enforcement measures.

Mineral Lease Expiration

Through the 1997/98 fiscal year, the Alberta Department of Energy notified the EUB of 480 wells where mineral leases had expired. In these cases, licensees are obligated to abandon the wells within 90 days. A minority of these wells were transferred, or the mineral rights were re-acquired. Of the remaining wells, 33 were abandoned by the licensee within the 90 day period. A further 289 wells were abandoned by the licensee following receipt of the EUB's Letter of Notification. There were 158 EUB Abandonment Orders issued to reluctant operators that failed to comply with the Letter of Notification. This high level enforcement action was taken to ensure timely abandonment and to minimize risk to the Fund.

First Time Licensees

Corporate profile reviews were completed and approvals granted for 94 first-time licensee applications, which included the collection of $940,000 first-time licensee fees. In addition, reviews are continuously undertaken to ensure up-to-date corporate profiles on companies holding EUB licences.

Surveillance, Monitoring, Enforcement

The EUB utilizes a firm and fair escalating enforcement philosophy as part of its regulatory process. This consists of corporate surveillance and audit, and enforcement.

Surveillance combines both physical inspections and audits. The EUB maintains regulatory compliance through a series of enforcement ladders. Each ladder is an escalating set of approved enforcement actions used to deal with non-compliance of regulations, or for recurring negative behaviour by a company.

Each EUB Work Group is establishing its own specific enforcement ladder based upon its area of responsibility, but co-ordinated with the EUB's overall enforcement principles and policy. A Work Group handles a non-compliance issue up to a prescribed enforcement level. If the non-compliance event escalates past that level, or is of such a nature as to immediately enter the enforcement ladder at a high level, then the issue becomes the responsibility of the EUB's Corporate Compliance Group. This group provides a centralized and consistent approach to enforcement for more serious events of non-compliance.

Hearings, Appeals and Litigation

No EUB enforcement-related hearings or appeals occurred in the 1997/98 reporting period. The EUB was unsuccessful in the Court of Queen's Bench with its litigation against Sarg Oils Ltd. The EUB has subsequently decided to appeal. Where necessary the EUB will continue with abandonment of non-orphan wells in serious non-compliance and initiate civil litigation procedures to recover costs. The EUB will investigate opportunities for civil actions outside of Alberta and Canada. The EUB and the Alberta Environmental Protection (AEP) will review and co-ordinate their respective proactive enforcement for improved Fund protection and overall regulatory compliance. The EUB was involved in two non-routine litigation procedures in 1997/98, including the Case Study example in this report.

Orphan Program Expansion – Liability Management Program (LMP)

In 1996 the EUB received and accepted the Report and Recommendations of the Orphan Facilities, Pipelines and Reclamation Subcommittee. Currently the EUB is working towards two goals:

- Ensuring that via an integrated liability management program at the EUB, new orphans are minimized.
- Expansion of the scope of the Abandonment Fund to include orphan facility and pipeline abandonment, and associated site, facility and pipeline decontamination and reclamation.

The objective of LMP is to ensure that petroleum facilities abandonment and reclamation is timely and protects the environment and the public interest.

CASE STUDY A Receivership and Bankruptcy

Preface

Last year's annual report presented two case studies to illustrate firstly, orphan prevention activities by the regulator and secondly, industry practices associated with the evolution of an orphan. This year's case study was chosen to again illustrate the orphan prevention activities that are carried out by the regulator in support of the Orphan Program and the Abandonment Fund. However, this particular case study illustrates a different type of situation from last year, involving a receivership and bankruptcy. This case study will focus primarily on the EUB enforcement activities that occurred after the appointment of the receiver and trustee. The names of the companies in this case study have been changed for the purposes of this document.

Issue

Op Co is the licensee of three wells. Op Co had been identified as a problem company when the Crown terminated its mineral leases with Op Co for non payment of rent. The Crown then resold the mineral leases at public auction to a new company. Op Co's primary business interests were in other areas and it was not overly sophisticated in the area of oil and gas production nor its regulatory responsibilities.

The EUB's enforcement actions against Op Co initially focused on the following major issues within the EUB's jurisdiction:

- Non-compliance with requirements to properly suspend inactive wells
- Non-compliance with abandonment orders respecting the mineral expiries
- Non-payment of the Abandonment Fund levy

Op Co was placed into receivership and bankruptcy in early 1996. The EUB then focused its enforcement actions on the receiver and trustee. Receive Co, a major national accounting firm, was acting both as receiver and trustee. The EUB issued new abandonment orders directly to Receive Co to ensure it addressed the wells as part of the winding up of Op Co.

Background

As previously mentioned, this case study focuses on the EUB enforcement activities with Receive Co. When the EUB first became aware that Op Co had been placed in receivership and bankruptcy, the EUB corresponded with Receive Co advising them of (1) Op Co's abandonment obligations, (2) the expectations that the EUB had of Receive Co and (3) ordered Receive Co to abandon the wells. Receive Co was representing the secured creditor, Bank Co, a major financial institution. Op Co also owed money to Revenue Canada and other assorted unsecured creditors.

The EUB advised Receive Co that the three wells had an estimated abandonment cost of approximately $100,000. One of the wells had a gas migration problem outside casing which could significantly increase the overall costs. This cost did not include any decontamination and reclamation costs under Alberta Environmental Protection's (AEP) jurisdiction. AEP had also issued an Environmental Protection Order against Receive Co.

Although Receive Co initially had several verbal and written contacts with the EUB and AEP, Receive Co eventually ignored the EUB's Abandonment Orders and proceeded with the distribution of the Op Co estate's funds to Bank Co and then sought its own discharge as receiver. The EUB objected to the discharge and commenced legal court proceedings against Receive Co. The EUB retained private legal counsel to represent the EUB in this matter. Legal counsels for the EUB, Receive Co. and Bank Co. along with the EUB Enforcement Section then undertook a series of discussions and actions that culminated with Receive Co arguing that it had never received the wells as part of the security taken and therefore, had no responsibility to comply with the EUB's Abandonment Orders. The EUB's jurisdiction over receiver managers was

also challenged.

The EUB had evidence that Receive Co had indeed attempted to sell the three wells as part of its receiver and trustee duties. One potential buyer withdrew when it learned of the gas migration problem associated with one of the wells. EUB counsel provided Receive Co. with a summary of the EUB's evidence and clarified the EUB's jurisdiction respecting a receiver manager of property. Receive Co subsequently offered the EUB $10,000 as settlement without prejudice. At this point, the Fund Advisory Committee, an orphan prevention stakeholder, was made aware of this matter and kept informed of the EUB's ongoing actions. The net proceeds in the Op Co estate totalled approximately $40,000 from the sale of certain equipment associated with Op Co's other business interests. The EUB refused the offered settlement, taking the position that the entire net proceeds of the Op Co estate should be applied to the future abandonment costs. Receive Co then offered $20,000 and again the EUB refused. Receive Co eventually offered the entire proceeds to the EUB subject to (1) the EUB issuing a release to Receive Co and Bank Co and (2) the EUB withdrawing its objection with the Court of Queen's Bench to Receive Co's discharge. The EUB accepted this offer.

Status

Notwithstanding the settlement with Receive Co, the EUB Enforcement Section is continuing with normal enforcement action against the principals (and working interest participants, if any exist) of Op Co. As persons in control of Op Co prior to the receivership and bankruptcy, these principals will be personally liable for the abandonment costs incurred by the EUB when it conducts the abandonment of the wells to enforce its abandonment orders against Op Co. The EUB will abandon the wells in due course and pursue debt enforcement against the principals. The EUB anticipates further legal proceedings should the principals exercise their rights under civil debt enforcement.

Key Messages

The following key messages from this case study identify the essential elements which serve to protect the Abandonment Fund:

- The EUB must undertake timely proactive enforcement utilizing all enforcement tools at its disposal to ensure that all responsible parties are held accountable to fulfil their abandonment obligations under the Oil and Gas Conservation Act (Act).
- The Act holds that persons in control of a licensee are personally liable for well abandonment costs and EUB staff believe such persons are not protected by bankruptcy proceedings. This position may be contested in court by parties being enforced against at some point in the future.
- Given that the Northern Badger Case precedent respecting receivers may no longer be applicable due to recent changes in the Bankruptcy Act, the federal versus provincial statute issue may be contested in court again at some point in the future.
- The case-specific diversity of each individual enforcement situation requires different approaches to enforcement. As more experience is gained, further amendments to the Act may be necessary to maintain adequate fund protection.

EUB LIABILITY MANAGEMENT CONCLUSION

The Fund is important to the province because it addresses a significant liability. The past year saw significant expenditures and considerable effort by the EUB regarding continued orphan prevention and support of the Fund's expanded mandate. These activities will continue to grow in 1998/99.

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